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Social Security Bashing: A Historical Perspective

By DANIEL GROSS

PRESIDENT BUSH claimed last week that the Social Security system would be "flat bust, bankrupt" in 40 years "unless the United States Congress has got the willingness to act now."

Given that professional economic forecasters are seldom correct when they predict what will happen in the next four quarters, it is difficult to accept 40-year estimates made by an amateur forecaster, even if he is the president. From its very origins, Social Security has tended to inspire apocalyptic economic projections. Now that economic claims and counterclaims about the program's future are multiplying, it is worth revisiting the response that greeted the introduction of Social Security 70 years ago.

In June 1934, in the teeth of the Depression, President Franklin D. Roosevelt called for ambitious government programs to ensure "the security of the home, the security of livelihood and the security of social insurance." After the midterm elections that year, when Democrats expanded their already huge Congressional majorities, he moved quickly to introduce legislation.

The Social Security Act called for the government to offer modest unemployment benefits and to provide immediate assistance to poor older people. Starting in 1941, workers reaching the age of 65 would receive a guaranteed federal pension. To pay for Social Security, the United States would build up a reserve fund financed by new payroll taxes on employers and workers - a combined 2 percent in 1937, rising to 6 percent in 1949.

Though mild by today's standards - Social Security taxes now sop up 12.4 percent of payrolls - the proposal sent many authorities on the American economy into paroxysms. Silas Hardy Strawn, a former head of the United States Chamber of Commerce, called the plan one of many "attempts to Sovietize America." B. C. Forbes, the proprietor and editor of Forbes magazine, was similarly aghast. "It has not been established why politicians should invade the field of voluntarily subscribed annuities," he wrote, "since this field is already equitably covered by thoroughly trustworthy insurance companies."

Executives of the nation's largest corporations fretted that Americans would abandon thrift if the government began to guarantee retirement incomes. "Industry has every reason to be alarmed at the social, economic and financial implications," said Alfred Sloan, the chief executive of General Motors and the Jack Welch of his day.

Newsweek, then as now a crucial harvester of conventional wisdom, summed up the reasoning of "critical economists" this way: "Most employers can't afford the 6 percent insurance levies. This means they will cut wages, or raise prices, or both. Result: Increase in living costs, decrease in public confidence. Sum total of criticism: Recovery retarded."

People sympathetic to the Roosevelt goals also criticized the plan. "Since industry will make every effort to pass on its levy to the consumers, it means that the young employees - in their dual role of workers and consumers - will bear the major cost of the accumulated problem of old-age dependency," Abraham Epstein, executive secretary of the American Association for Old Age Security, wrote in The Nation.

Most troubling to economy watchers was the prospect of the government's stockpiling reserves of tax payments - a projected $10 billion by 1948 and more than $40 billion by 1980. Marion Folsom, the treasurer of Eastman Kodak and a Roosevelt ally, said that establishing the fund would divert a large amount of money from consumer purchasing power. "That is bound to have a depressing effect on general conditions," he said.

Despite occasionally hysterical opposition - Senator Daniel Hastings of Delaware predicted that the bill's passage would "end the progress of a great country and bring its people to the level of the average European" - the Social Security Act was passed by huge majorities in August 1935.

As the program developed and the years unfolded, virtually all of the dire claims made about its economic impact failed to come true. Rising taxes in the 1940's did not inhibit companies from earning profits, creating jobs or expanding pension plans. In fact, the middle decades of the 20th century are generally regarded as a sort of golden age for both companies and labor.

"There weren't many periods in our history that were much better than the two decades from 1945 to 1965," said Richard Sylla, an economic historian at the Stern School of Business at New York University. "We had high growth, high productivity and low inflation."

And, needless to say, the advent of Social Security failed to introduce Soviet-style socialism on American shores.

It is important to note, however, that Social Security did not, on its own, ensure economic security for all older Americans. In 1959, the poverty rate for the elderly stood at 35.2 percent, though that was down from more than 50 percent during the Depression. It took the passage of another hotly contested and expensive social insurance program - Medicare, in 1965 - to reduce poverty among the elderly substantially.

Social Security inspired alarm and heated rhetoric in the 1930's because it involved a fundamental reordering of a portion of the economy and a basic change in the compact between the government and its citizens. Seventy years later, President Bush's desire to transform Social Security from a government-provided guaranteed income to a self-directed savings program also betokens far-reaching changes. As such, it is likely to generate its share of far-reaching claims, both for and against.

One often-sounded warning about Social Security did materialize. Critics and supporters alike argued that the government might be tempted to spend the reserve funds that would pile up. Indeed, in the last four fiscal years, some $634 billion ostensibly collected to ensure the long-term viability of Social Security has been spent on current programs, according to figures from the Office of Management and Budget.

As Mr. Epstein wrote nearly 70 years ago: "Experience everywhere indicates that politicians will hardly be able to keep their hands off such money."

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